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Saraceno, Chiara

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One Crisis – Different Impacts How the European Welfare States Reacted to the Recent Downturn

Chiara Saraceno

In order to make an informed evaluation of the impact of the economic crisis on welfare states, two things, besides issues concerning the country-specific variety of capitalism, must be kept in mind: 1.) the variety of domestic policies that make up the specific profile of a welfare state, and 2.) the different degree to which individual welfare states had accommodated their changing risk profile before the onset of the crisis.

Welfare states comprise a mixed bag of social policies, which not only have a different degree of institutionalization within a country as well as between countries, but also have different aims and target different risks and social groups: pensions, unemployment indemnity, minimum income provision, health, housing, social care, family benefits, to name just the main areas of intervention. Furthermore, the actors involved in financing and/or implementing various policies may differ, ranging from the supranational to the national, the regional to the municipal, all with varying degrees of negotiating power. Thus, though financial constraints impacting national and local budgets may affect all policies, the degree and direction of their impact may vary both across policies and between countries.

This impact is dependent on the degree of institutionalization and the power of the various actors involved in a given policy, as well as on the specific role a given policy plays in facing the crisis. Expenditure on unemployment benefits and minimum income provisions, for example, is likely to increase in most countries, even if tighter rules are introduced. At the same time, the crisis might be used as an additional rationale to reduce pension benefits, or to push ongoing reform in the direction of defined contribution systems and second- and third-tier pensions. Within healthcare systems, the range of services provided might be reduced, while shifting a larger quota of costs onto families and individuals. Depending on their priorities and definition of risks, countries may reduce investment in education (as in the UK and Italy) or increase it (as in Germany).

Concerning the second issue, in the past fifteen years at least (well before the onset of the economic crisis), there has been an ongoing debate within each country as well as within the European Union, concerning the need to “modernize social protection.” That is, to adapt it to ongoing socio-economic change. The three areas identified in this debate (known as “new social risks” in scientific literature) were: 1.) the new gender balance; 2.) ageing populations, and 3.) the changing nature of work. Thus, the economic crisis is just one, though very important factor in a process of continuous partial re-orientation of welfare state priorities and social expenditure flows, as testified by such diverse phenomena as:

- the past twenty years of pension reform;
- welfare-to-work and activation debate and measures;
- increasing space (and expenditure) for work-family reconciliatory policies;
- growing attention to social investment policies, towards the young, but also towards adults (e.g. lifelong learning).

But, as Bonoli among others has pointed out, national welfare states were equipped differently to deal with the modernization required by these changes. These differences depended not only, as long indicated by Pierson, on pre-existing institutional framework and the interest groups crystallized around that framework. It depended also on the timing – and budgetary context – of the emer-

gence of these changes. Countries that witnessed the rise in women's labor force participation during a period of expanding budgets, experienced fewer constraints re-orienting their social expenditure in order to support that rise. Those countries where women increased their participation in the work force later, and were simultaneously faced with an aging population and the changing nature of work, had more constraints. Consequently, in countries where minimum income for the poor and activation policies were already in place, the crisis will probably cause a tightening of rules; the workfare rather than the social investment approach might be stressed. This will reduce short-term costs, with the risk of increasing long-term ones for individuals.

In countries like Italy or Greece, where these provisions do not exist or are left to the local initiative, and where even universal unemployment benefits are lacking, the crisis, instead of opening a window of opportunity to "modernize" the social protection systems toward greater universalism, is closing it for the time being.

In the area of work-family conciliation policies, countries (such as those in Eastern Europe and Scandinavia), which already had a system of long and fairly well-compensated parental leaves in place, might use parental leaves to contain unemployment, as had already occurred in previous economic crises in Finland and some Eastern European countries. Such measures also reduce the pressure of the demand for childcare places. The social cost would be a step backwards in gender equality, since only women take long leaves of absence, further weakening their position in the labor market. In countries, such as Ireland, Poland and Mediterranean countries, with less generous systems in both parental leave and services, any further improvement will probably be out of the agenda, with a negative impact on both gender and social class inequalities. In the short term, a trade-off between job creation (or maintenance) and quality of services may also occur, strengthening trends already visible in the area of child care, for instance in the UK, or of elderly care in Portugal, Spain and partly France – countries that were already trying to combine increased social care services with the creation of low-wage jobs for un-skilled workers, women in particular.

Welfare states differ not only in terms of generosity or universality. They also differ in the degree they have consolidated (i.e. politically and culturally legitimated) social solidarity with regard to specific risks, or needs. The economic crisis, therefore, impacts not only different political economies, but also different political cultures concerning the risks/needs deserving to be protected through social solidarity. I share Peter Hall's prevision that larger welfare states will suffer less than smaller, reduced ones. But I add that one should also differentiate across policies, looking not only at possible retrenchments, but also at changes in content and goals.

In other words, welfare restructuring in the name of austerity may result less in expenditure cuts than in a general reframing of entitlements and target groups, thus of the contours and contents of social citizenship.

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